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Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, D.C. 20554

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In the Matter of

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Federal-State Joint Board on  
Universal Service

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CC Docket No. 96-45

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COMMENTS

Colorado Independent Telephone Association  
3236 Hiwan Drive  
Evergreen, Colorado 80439

April 12, 1996

## **OVERVIEW**

In its comments to follow, the Colorado Independent Telephone Association (CITA) desires to be responsive to the questions posed by the Commission, while, at the same time highlight those areas of the Federal legislation which are particularly sensitive and crucial to the small rural LECs, such as those who are members of this Association.

There are currently about 30 local exchange carriers serving Colorado. One of those carriers serves 95% of the local exchange subscribers living in about 50% of the state's geography. The remaining 29 exchange carriers serve the remaining 5% of the subscribers scattered about the remaining 50% of the state of Colorado, entirely rural per definition of the Act. The average subscribers per square mile in the 50% of the state served by the 29 local exchange carriers is less than 1.5. Low density is the parent of high cost per subscriber and likewise high per-subscriber service price under a cost-based price scenario.

Are universal service support mechanisms important to those 29 exchange carriers and their subscribers? The answer is obvious! Without such mechanisms, many of this state's rural customers would simply be unable to stay connected. Equally obvious is the likely effect of material reductions in current levels of support furnished through the USF, and soon to be offspring of USF called for by the Telecommunications Act of 1996. The ability to provide mere "basic local exchange service" at affordable rates, let alone the promises of equal access to advanced telecommunications services in rural areas just as in urban areas is simply unrealistic without universal service support mechanisms.

Universal service support mechanisms must continue to include aggregate support levels at least equal to the sum of current USF, Lifeline Assistance, DEM weighting and CCL support and with minimal disruption as we transition to the world of competition as described in the Telecommunications Act of 1996. Support levels may need to increase above current to bring advanced features and rate parity as required by the Act. It must be kept in focus that this legislation, while clearly calling for a competitive environment in the local exchange telecommunications business **very clearly requires that universal service be maintained and even expanded.**

Existing universal service support programs should become the foundational concepts for defining the new ones. If need be, modifications can be made to these programs to make them more "explicit" as called for in the new federal law. We have strong reasons for believing, however, that modifications which seem perfectly appropriate for companies operating in urban areas may not be appropriate for those who serve primarily, or entirely, a rural constituency.

We strongly favor continuing with a winner as far as an agent for administration of the new generation universal service supports. The National Exchange Carrier Association has the professional know-how, the tools, the non-profit approach, and a sterling reputation which makes it, in our opinion, a natural for administration of the universal service mechanisms of the future.

So, now on to CITA's more specific comments:

## **1. UNIVERSAL SERVICE SUPPORT AT FEDERAL AND STATE LEVELS HAVE ENABLED "RURAL" AREAS TO REMAIN COMPETITIVE**

For the past few years, Colorado has been experiencing substantial population growth as people flee other overcrowded, less desirable areas looking for a better quality of life. While much of this growth in Colorado has been occurring along the "front range" which stretches from Pueblo northward to Ft. Collins along the eastern edge of the rocky mountains, substantial growth is also occurring in the "rural" areas of the state. A good part of this rural growth includes small business establishment, individual entrepreneurs including so-called "lone eagles", and just people looking for a slower, safer way of life.

This rural growth, in our opinion, could never have occurred without the existence of an adequate, modern telecommunications infrastructure, available to the new "pioneer" of rural Colorado. And just how did such an infrastructure happen to be in place to lure the new Colorado citizen? The availability of federal USF and the Colorado High Cost Funds played a very significant role. With the support of these programs, the rural LECs in Colorado have been able to provide 100% single party lines, 100% digital switching, fiber optic trunk lines, a number of distance learning networks, connections to the Internet, and, just generally, telecommunications capabilities which usually are associated only with urban areas. Without universal service support, both on a federal and a state basis, these things would simply not have been possible without extreme hikes in local basic exchange service rates. And the way we read the Telecommunications Act of 1996, we are expected to continue providing substantially equivalent basic and advanced services to our rural subscribers as to the urban ones.

Our rural subscribers have grown used to being treated as "distant" but "equal" cousins to their urban friends (telecommunicationsly speaking). Any retreat from this position in the future will be completely unacceptable to them.

But, we know, and we think they (rural subscribers) know that without some form of outside support, their telecommunications bills could easily become a burden and put a substantial damper on economic activity in the sparsely populated areas of Colorado.

In spite of the deserved pride of the rural areas in believing that "everything is up to date in Kansas City (from the musical Oklahoma)", technology moves on at a pace that never seems to relieve the pressure on rural exchange providers to offer more of the new and exciting telecommunications services to their subscribers. The rural companies' urban counterparts are already offering new switching services such as ATM, Frame Relay, and SMDS, and are deploying "Advanced Intelligent Network" technology. And then there is deployment of 888 calling, Caller ID, and even more. The rural companies have no choice but to stay up to date to keep their serving areas competitive. And where will all the money come from?? Failure to insure sufficient universal service funding to make

this possible will likely result in two unequal networks -- a modern network for the urban "haves" and an increasingly obsolete network for the rural "have-nots."

In most rural areas, it has been uneconomic for even cable TV to be built. We don't expect competitive providers to be rushing to rural Colorado to fill any technology voids, therefore. We expect to be the high tech providers for years to come and without support will likely fall behind, creating "have-nots" not because of lack of desire, but because of unique rural economics. We believe the intention of the Telecommunications Act of 1996 is to avoid such a result.

## **2. THE WORLD NEED NOT BE RE-INVENTED: MUCH OF THE CURRENT UNIVERSAL SERVICE SUPPORT MECHANISM CAN BE RETAINED AND BUILT UPON!!**

The Telecommunications Act of 1996 provides seven "universal service principles" upon which the Commission is to base its policy decision -- briefly they mandate:

- a. Availability of quality services at just, reasonable and affordable rates
- b. Access to advanced telecom and information services in all areas of the nation.
- c. Access to telecom & information services (in rural areas) which are reasonably comparable in quality and price to those in urban areas
- d. All telecom providers to make equitable and nondiscriminatory contributions to universal service mechanisms
- e. Specific, predictable and sufficient federal and state support to preserve and advance universal service
- f. Schools & health care providers have access to advanced telecom services
- g. Other principles to protect the public interest

A complete renovation of current universal service funding methodologies which fulfill all these mandates seems unnecessary. Many such changes seem to concentrate on the conditions in urban areas where larger companies operate, but whose application seems questionable when applied to companies operating in rural areas. Proxy formulas being touted by some may seem appropriate in dense, urban areas, but seems doomed to fail if applied to rural areas where cost of serving can vary greatly among small company study areas.

We believe that the Commission should not rush to adopt alternative methods, but continue to allow rural telephone companies to continue using current cost-based methodologies to identify universal service funding requirements. There is no better proxy than actual cost! On the other hand, we have no difficulty with the idea of trying to develop some more "explicit" mechanisms to determine universal service charges to providers.

### **3. THE MYSTICAL "ELIGIBLE CARRIER":**

This is an easy one for us at CITA. The eligible carrier status should be endowed only on those local exchange providers expressing their willingness to serve entire service areas!! While not focused on much in the Telecommunications Act, we recognize the term "eligible" to refer to eligibility to receive universal service funding. We strongly believe that "cherry pickers" should be declared ineligible for universal service support funds. You must either be in all the way, or not expect support funds. Further, pure resellers should receive no universal service support funds since they have invested nothing in the infrastructure which USF supports. If anyone is to receive the universal service support funds, it should be the investor. As for partially "facilities-based" carriers and partially "resale" carriers, they should be eligible for universal service support only on their facilities-based services and their facility investments should extend well beyond the city limits into the "real" rural areas. The support on the resale side must go to the facilities provider.

Given the history of many of those "new entrants" in the local exchange market who are currently interexchange providers, we doubt that many will rush to become "eligible" in the low-density, rural areas of Colorado, unless they are given the opportunity to cherry-pick selected customers and also get universal service support without having to provide facilities capable of serving all customers in the service area of an incumbent rural local exchanger carrier. However, if this scenario were allowed to occur, irreparable economic damage could result on the eligible incumbent (provider of last resort) and their customers. Subscribers in a large part of rural Colorado have been denied the opportunity to choose among these long distance carriers. Only AT&T, as long distance carrier of last resort, was willing to serve the small towns and rural areas of Colorado. Interest in serving areas where customers number less than 2 per square mile is unlikely to be intense.

### **4. WHO SHOULD CONTRIBUTE TO THE UNIVERSAL SERVICE FUNDS AND THE CASE AGAINST UNIVERSAL SERVICE FUNDING REDUCTION AND "CAPS"**

CITA strongly believes, as we believe the crafters of the Telecommunications Act of 1996 believed, that there should be virtually no exemptions to contributing to the "new USF" for interstate, interexchange carriers. And we would especially encourage the Commission to include all wireless telecommunications providers who depend on the basic telecommunications network for call completion. So, they must be named a contributor, not just be given "voluntary" status. We believe this interpretation of the Act is right in line with that of Congress. After several impassioned speeches before the Colorado PUC as to why they should not be "required" to contribute to the Colorado High Cost Fund, one of the Colorado Commissioners remarked that the wireless companies needed to consider themselves "re-regulated" as far as their "non-voluntary" contributions to the Colorado High Cost Fund were concerned.;

CITA believes in the widest possible interpretation of "telecommunications provider" as it

pertains to who should contribute to the universal service support fund(s). Universal basic service is not technology-dependent -- it basically is two people communicating and all who provide this capability should contribute.

As earlier mentioned, CITA opposes reduction and/or capping of the USF. To do so would be to deny the inevitability of growth in all aspects of the telecommunications industry including that in the low density, therefore high cost areas of our country. Those who have traditionally favored reduction or capping of the fund(s), have, because of the nature of their business (interexchange), experienced the highest business growth rates. While local revenues may have been growing at 6-7%, long distance growth has been several percentage points higher. Therefore, their percentage of revenues going to support universal service funding has been dropping steadily -- on a total as well as a per minute basis.

But, they don't wish to think of universal service support funding as anything other than a burden and a penalty. They obviously overlook the fact that since 1984, USF recipient companies have installed more than 12 million new access lines, thus providing benefit to all users and carriers on the network, including those contributing to the USF.

The federal Act mandates that support mechanisms be "sufficient" to preserve and advance universal service. Placing artificial caps and ignoring the requirements of growth in the high cost areas seem to be inconsistent with maintaining the "sufficient" requirement. Ad Hoc caps imposed on individual study area USF distributions also seem to be at odds with the spirit of the Act. If the concept of universal service works, rural growth will create new economies of scale for small companies and growth, itself, will create its own capping mechanism.

##### **5. WHAT SHOULD BE THE BASIS OF UNIVERSAL SERVICE COLLECTION DETERMINATION? PROBABLY SOMETHING DIFFERENT FROM NOW.**

The "pre-subscribed lines" formula which has been used for the federal USF for 10 these many years may be obsolete in the competitive world of the future. Increasingly, it seems to make more sense to apply some form of revenue measure in determining a universal service support liability. Since we are talking "interstate" universal service funding support, it is probably reasonable to talk about an interstate revenue measure of support liability.

We believe that such a revenue-based liability measure is appropriate, and would further recommend refining it to be based on a measure of gross interstate revenues. Another possibility would be to base the liability on interstate retail revenues.

## **6. UNIVERSAL SERVICE FUND ADMINISTRATION**

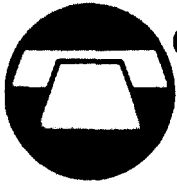
CITA would herein merely reiterate its previous recommendation that the Commission appoint the National Exchange Carrier Association, already fully equipped to handle the new universal support mechanisms collection and distribution duties, to carry on with the revised duties of this task as they should be defined.

## **7. AND, FINALLY**

It is difficult to say as strongly as it needs to be said, just how critical continuation of universal service support, both on a federal as well as state basis, is to the many small rural telephone companies and their subscribers in Colorado. We believe that the Telecommunications Act of 1996 places proper strong emphasis on the importance of such support on a national basis and basically requires that it be carried out. We concur!

All rules promulgated by the Commission to carry out the intent of the universal service provisions of the Act should consider appropriate transition periods if reductions occur in order to avoid all the various kinds of shock that companies and subscribers might suffer from changes which might be enforced too abruptly.

And please remember that in Colorado, the largest non-RBOC company serves only 65,000 access lines with the next largest company serving less than 10,000 and the smallest serving only 54 subscribers. The median exchange size is 300 access lines for Colorado's small rural carriers. In Colorado, small means SMALL and even "insignificant" changes at the Federal level have potentially enormous impact on this state's small providers of last resort. Like it or not, America's telecommunications users have become accustomed to a predictable pattern and are likely to strongly resist strong-arm tactics as new, competitively inspired rules are introduced.



Colorado  
Independent  
Telephone  
Association, Inc.

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April 10, 1996

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William F. Caton, Acting Secretary  
Federal Communications Commission  
1919 M Street, N.W. - Room 222  
Washington, D.C. 20554

Re: In the Matter of Federal-  
State Joint Board on  
Universal Service

CC Docket No. 96-45

Dear Mr. Caton:

Enclosed herewith for filing with the Commission are the original and six copies of the comments of the Colorado Independent Telephone Association in the above-captioned matter.

Please acknowledge receipt hereof by affixing a notation on the duplicate copy of this letter furnished herewith for such purpose and remitting same to bearer.

Very truly yours,

Norman D. Rasmussen  
Executive Vice President

cc: Members, Federal-State Joint Board  
International Transcription Service

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